

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2007**



AUDIT SUMMARY

Our audit of the Department of Alcoholic Beverage Control of the Commonwealth of Virginia for the year ended June 30, 2007, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider material weaknesses; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

Risk alerts are issues beyond the corrective action of management and require the action of either another agency or outside party or a change in the method by which the Commonwealth conducts its operations. The following matter represents a risk to the Department, but the Department must rely on the Virginia Information Technologies Agency to address the risk.

- Security Risk Assurance for Infrastructure

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COMMENTS TO MANAGEMENT

Risk Alert

During the course of our audits, we encounter issues, which are beyond the corrective action of management and require the action of either another agency or outside party or a change in the method by which the Commonwealth conducts its operations. The following matter represents a risk to the Department of Alcoholic Beverage Control (the Department), but the Department must rely on the Virginia Information Technologies Agency (VITA) to address the risk.

Security Risk Assurance for Infrastructure

The Alcoholic Beverage Control Board (Board) has responsibility for the security and safeguarding of all of the Department's information technology systems and information. Over the past four years, the Commonwealth has moved the information technology infrastructure supporting these databases to VITA, who has an Information Technology Partnership (IT Partnership) with Northrop Grumman. In this environment, VITA and the Board clearly share responsibility for the security of the Department's information technology assets, systems, and information and must provide mutual assurance of this safeguarding.

The Department has provided VITA with all the documentation required to make this assessment and VITA should provide assurance that the IT Partnership will practice proper policies and procedures as outlined by the Department. VITA will have a special audit done of the IT Partnership and will communicate any findings and corrective action to the Department.

The special audit has identified that the IT Partnership staff did not have a formal, documented infrastructure change control process. A documented and implemented change control process is critical in order to minimize the security risks relating to the confidentiality, integrity, and availability of the Department's information stored on the IT Partnership's hardware and infrastructure.

Although the Department is not responsible for correcting these findings, they should receive regular status reports from VITA on the progress the IT Partnership is making to correct the issues. As part of the progress reporting, VITA should provide the Department with any interim steps they should take if the IT Partnership must delay addressing this issue. We bring this matter to the attention of the Board, so that they can properly manage their risk and monitor corrective action.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

September 24, 2007

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

Alcoholic Beverage Control Board
Department of Alcoholic Beverage Control

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the financial statements of the **Department of Alcoholic Beverage Control** as of and for the year ended June 30, 2007, and have issued our report thereon dated September 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Status of Prior Findings

The Department has taken adequate corrective action with respect to audit findings reported in the prior year.

The "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Alcoholic Beverage Control Board, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Exit Conference

We discussed this report with management at an exit conference held on October 1, 2007.

AUDITOR OF PUBLIC ACCOUNTS

DBC/wdh

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

BOARD MEMBERS

As of June 30, 2007

Susan R. Swecker
Chairman

Pamela O-Berry Evans

Esther H. Vassar